

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6107

Tariff filing of Green Mountain Power Corporation)
requesting a 12.9% rate increase, to take effect)
June 22, 1998)

PREFILED SURREBUTTAL TESTIMONY OF
MICHAEL D. DIRMEIER
ON BEHALF OF THE
VERMONT DEPARTMENT OF PUBLIC SERVICE

November 13, 2000

Summary: Mr. Dirmeier recommends that the Public Service Board adopt the Surrebuttal

Department of Public Service
Michael D. Dirmeier, Witness
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Memorandum of Understanding Regarding GMP's Allowed Costs of Service.

Prefiled Testimony
of
Michael D. Dirmeier

1 Q. WHAT IS YOUR NAME AND ADDRESS?

2 A. My name is Michael D. Dirmeier and my business address is 716 Danbury Road,
3 Ridgefield, Connecticut, 06877.

4 Q. BY WHOM ARE YOU EMPLOYED?

5 A. I am a principal in the management consulting firm of Georgetown Consulting Group,
6 Inc.

7 Q. DID YOU TESTIFY PREVIOUSLY IN THIS DOCKET?

8 A. Yes, I did. My testimony was prefiled in September 1998. I testified before the Public
9 Service Board on October 20, 1998.

10 Q. WHAT IS THE PURPOSE OF THIS SURREBUTTAL TESTIMONY?

11 A. The purpose of this testimony is to indicate my reasons for recommending that the
12 Board adopt the May 18, 2000, Supplemental Memorandum of Understanding Regarding
13 GMP's Allowed Cost of Service ("COS MOU") in this proceeding.

1 Q. DID YOU ASSIST THE DEPARTMENT OF PUBLIC SERVICE WITH RESPECT TO
2 DEVELOPING THE COS MOU; IF SO, HOW DID YOU DO SO?

3 A. Yes, I did. In late 1999 and early 2000, at the Department's request, I reviewed
4 forecasts prepared by Green Mountain Power ("GMP"), submitted informal discovery requests
5 concerning them and reviewed the responses to discovery. In addition, I met with Mr. Kvedar
6 on one occasion in Burlington, and spoke with him via telephone on several occasions to review
7 the forecasts and clarify issues concerning them.

8 Q. DO YOU RECOMMEND THAT THE BOARD ADOPT THE COS MOU FOR
9 PURPOSES OF ESTABLISHING RATES IN THIS PROCEEDING?

10 A. Yes, I do.

11 Q. PLEASE EXPLAIN WHY THE BOARD SHOULD ADOPT THE COS MOU.

12 A. GMP's original filing in this proceeding was litigated in 1998, based on a 1997 test year
13 and 1999 rate year. Obviously, as this supplemental testimony is being filed in November,
14 2000, a considerable amount of time has elapsed since filings were made and testimony was
15 first received in this proceeding. Not only has considerable time elapsed, but also there have
16 been significant events with respect to the Company's operations. These include, but are not
17 limited to:

- 18 • reductions in workforce: GMP began 1999 with 288 employees, but ended it with 196.
19 The Company ended its 1997 test year with 321 employees;
- 20 • the February, 1999 contract with Morgan Stanley with respect to GMP's 1998 power
21 solicitation;
- 22 • substantial revisions to the electric power industry in New England, including the
23 creation of the New England ISO, which replaced NEPOOL effective on May 1,

1 1999.

2 With these and other changes that the Company has weathered since the 1997 test
3 year, which is now over three years old, it makes little sense to litigate or to decide this
4 proceeding on data that not only is stale, but not representative either of current operations or
5 of operations that are anticipated to occur in the period for which rates are being set. The COS
6 MOU takes into account historical data and forecasts and results in a cost of service that is just
7 and reasonable.

8 Q. ARE THERE ANY OTHER REASONS WHY THE BOARD SHOULD ADOPT THE
9 COS MOU?

10 A. Yes. The dominant issue with respect to GMP's operations and financial condition has
11 been and continues to be the Hydro-Quebec purchase power contracts. A final reason to
12 adopt the COS MOU is that, in its own right it is appropriate, but in addition it enables the
13 Board to focus its attention and energies on resolving the HQ issue.

14 In addition, the COS MOU continues agreements previously reached between GMP
15 and the Department under which the Company has undertaken increased T&D expenditures, in
16 spite of its financial condition. The inclusion of expenditures and that commitment is an
17 important customer benefit provided by the COS MOU. In this regard, it should be noted that,
18 while Administrative & General expense included in the COS MOU is \$1.8 million below the
19 actual levels recorded by the Company during 1999, T&D expenses reflect a reduction from
20 1999 actuals of only \$661,000. Even so, the \$14.53 million of T&D expense included in the
21 COS MOU exceeds the \$14.39 million of expense reflected in my original position filed in
22 September, 1998.

1 Q. HOW DO THE AMOUNTS IN THE COS MOU COMPARE TO THE AMOUNTS IN
2 YOUR ORIGINAL TESTIMONY?

3 A. The comparison of expenses included as Exhibit DPS-MDD- Sreb 1, attached hereto,
4 shows that the level of expense included in the COS MOU generally is below the level of
5 expense that was reflected in my prefiled testimony in this matter, and also below the level filed
6 by GMP in its initial filing. The primary exception to this conclusion is in the area of purchased
7 power cost, which includes \$65.5 million of expenditure for the Morgan Stanley contract,
8 which did not exist at the time of the original testimony. In addition, resales also reflect a
9 significant change from the original testimony for the same reason.

10 Excluding purchase power and resale credits, the COS MOU reflects costs of
11 operation that are \$186,000 more than those reflected in the DPS's Docket No. 6107
12 recommendation. Of course, it should be recognized that the COS MOU is for costs in the
13 year 2000, whereas our original recommendation was for the adjusted 1999 test year.

14 The variances from our original Docket No. 6107 recommendation with respect to
15 purchased power and off-system sales reduce costs by \$25.6 million. However, this variance
16 also reflects that HQ-related costs and amortizations were \$32.1 million in our original
17 recommendation, and \$9.364 million in the COS MOU. In this respect, if HQ-related items
18 had been in the COS MOU at the level reflected in the original Docket No. 6107
19 recommendation, the net effect of purchase power and resales would have been \$3 million less
20 in the COS MOU than in the Docket No. 6107 recommendation. That is, purchased power
21 less resales were \$90 million in our recommendation, and would have been \$87.1 million in the
22 COS MOU with the same level of HQ in the COS MOU as in the original recommendation.
23 Thus, except for changes in HQ-related costs, the COS MOU reflects purchased power and
24 resales very close to the levels reflected in the original Docket No. 6107 recommendation.

1 Q. MR. KVEDAR'S REBUTTAL TESTIMONY INCLUDES REBUTTAL TO THE
2 TESTIMONIES OF IBM WITNESS GORMAN. DO YOU AGREE WITH HIS
3 REBUTTAL?

4 A. No, I do not. While my purpose here is not to file surrebuttal testimony to Mr.
5 Kvedar's rebuttal, in a number of instances, Mr. Kvedar's rebuttal would be equivalent to
6 rebuttal to my original testimony in this proceeding. I would emphasize that I stand by and
7 continue to support the technical positions taken in my original testimony. However, for the
8 reasons discussed above, I believe it is appropriate for the Board, at this time, to adopt the
9 COS MOU as a comprehensive bottom-line resolution of all issues in this proceeding, except
10 for the reserved Hydro-Quebec issues. Accordingly, while I do not agree with Mr. Kvedar's
11 rebuttal testimony, to the extent that it could also apply as rebuttal to my original prefiled
12 testimony, I recommend that the Board render such disagreements moot by adoption of the
13 COS MOU.

14 Q. DOES THAT CONCLUDE YOUR PREFILED SURREBUTTAL TESTIMONY IN THIS
15 PROCEEDING?

16 A. Yes, it does.

GREEN MOUNTAIN POWER CORPORATION
V.P.S.B.DOCKET NO. 6107
Comparison - Original Position to COS MOU
(\$000s)

	Original C. 6107 Recommendation	COS MOU	Difference
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1. Purchased Power	\$ 93,279	\$ 129,995	\$ 36,716
2. Production	5,216	6,276	1,060
3. Transmission	10,628	11,039	411
4. Distribution	3,763	3,491	(272)
5. Customer Accounting	2,689	2,330	(359)
6. Customer Service & Information	318	0	(318)
7. Sales	2	0	(2)
8. Admin and General	11,966	11,544	(422)
9. Depreciation / Amortization	17,874	16,954	(920)
10. Income Taxes	5,993	6,464	471
11. Taxes - Superfund	0	0	0
12. Taxes - Municipal Property	4,918	4,905	(13)
13. Taxes - Gross Revenue	1,685	1,873	188
14. Taxes - Hazardous Waste	2	3	1
15. Taxes - Payroll	794	586	(208)
16. Interest on Customer Deposits	120	0	(120)
17. Billing Credits	235	0	(235)
18. Return on Rate Base Investment	16,971	17,895	924
<u>Deduct Credits</u>			
19. Equity in Earnings of Affiliates	1,991	1,961	(30)
20. Other Elec. Operating Revenues	3,522	3,645	123
21. REEP Interest Income	0	0	0
22. Interest due from Customers	1	0	(1)
23. Resales	3,278	65,629	62,351